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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A DETERMINATION OF 2012 DEMAND-SIDE MANAGEMENT EXPENDITURES AS PRUDENTLY INCURRED.	))))))	**CASE NO. IPC-E-13-8** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's Application for a determination of 2012 demand-side management expenditures as prudently incurred.

BACKGROUND

On April 3, 2013, Idaho Power Company applied for an Order establishing that it prudently incurred $46,356,160 in demand-side management (DSM) expenses in 2012, including $25,857,603 in Idaho Energy Efficiency Rider expenses, $6,019,109 in Custom Efficiency program incentive expenses, and $14,479,447 of demand response program incentive expenses. Application at 1. The Company submitted a copy of its DSM 2012 Annual Report and testimony in support of its Application

The Company says it has implemented or manages wide ranging opportunities for all customer classes to participate in DSM activities, consistent with the Commission's direction that the Company pursue DSM programs to promote energy efficiency. The Company says it uses DSM programs to: (1) provide customers with programs and information to help them manage their energy usage, and (2) achieve prudent cost-effective energy efficiency and demand response resources to meet the Company's electrical system's energy and demand needs. Idaho Power consults with the Energy Efficiency Advisory Group (EEAG) that provides a broad range of recommendations, including input on new program proposals, modifications to existing programs, and overall expenditures of DSM funds. *Id.* at 2.

The Company says it has progressively increased the breadth and funding level of its DSM activities since the Rider was implemented in 2002. The Company also notes that the Commission found the Company prudently incurred cost-effective, DSM-related Rider expenses of $29 million from 2002-2007, $50.7 million from 2008 and 2009, $41.9 million in 2010, and $42.5 million in 2011. *Id.* at 2-3, *citing* Order Nos. 30740, 31039, 32113, 32331, 32667 and 32690.

In the latter two Orders, the Commission also declined to decide the reasonableness of the Company's increase in Rider-funded, labor-related expense included in the 2011 DSM expenses until the Company provides evidence by which to better assess the reasonableness of those expenses. In this Application, the Company says it has included the evidence requested by the Commission. *Id.* at 3 and 8. In light of this evidence, the Company says this Application's $25,857,603 in Idaho Rider expenses include the previously excluded 2011 increase in Rider-funded labor-related expenses. This Application also quantifies the corresponding amount of increase in 2012 Rider-funded labor-related expenses, as measured from the 2012 labor expense level. *Id.* at 9.

The Application says that in 2012, the Company continued its DSM programs to increase participation and facilitate energy savings. The Company's DSM programs included energy efficiency programs, demand response programs, market transformation programs, and educational initiatives. The Company says 13 of its 15 energy efficiency programs in Idaho were cost-effective; the Weatherization Assistance for Qualified Customers (WAQC) and the Weatherization Solutions for Eligible Customers (WSEC) programs were not cost-effective. The Company says all three of its demand response programs are cost-effective from a long-term perspective, but that the A/C Cool Credit program was not cost-effective in 2012. *Id.* at 3-4. The Company says its efficiency activities produced 170,228 MWh in energy savings in 2012. *Id.* at 3.

The Company attached its DSM 2012 Annual Report to the Application. The DSM Report discusses the cost-effectiveness of the Company's DSM programs and energy savings measures, as well as financial information separated by expense category and jurisdiction. *Id.* at 5. The Company examines a program's cost-effectiveness using the following four tests: (1) the total resource cost test (TRC); (2) the utility cost test (UCT); (3) the participant cost test (PCT); and (4) the ratepayer impact measure (RIM). *Id.*[1] The DSM Report also describes the Company's plans to evaluate its DSM programs, and contains copies of completed evaluation reports and research reports. *Id.* The DSM Report also describes each DSM program, including 2012 activities, along with customer satisfaction and process, impact, and market-effect evaluations. *Id.* at 6.

The Company says independent, third-party consultants provide impact and process evaluations to verify that program specifications are met, recommend improvements to the programs, and validate program-related energy savings. *Id.* at 8. In 2012, impact evaluations were completed on six programs and a process evaluation was completed on one program. Third-party consultants researched cycling strategies for the A/C Cool Credit program and evaluated measure assumptions for the Irrigation Efficiency Rewards program. Additionally, Idaho Power analyzed the FlexPeak Management and Irrigation Peak Rewards programs and has submitted corresponding reports with the Application. *Id.*

The Company says that when it calculated the prudently incurred expenses referenced in the Application, it adjusted some of the amounts set forth in the DSM Report. Specifically, the Company included an $82,856 adjustment for the disallowance of 2011 expenses in the A/C Cool Credit program; accounting corrections that principally reflect incentives paid to customers from the Idaho Rider that should have been charged to the Oregon Rider; an adjustment deferring a determination of prudence for some expenses incurred in 2012; and an exclusion of incentive payments paid to program participants that did not meet program requirements. Additionally, $3,512 of the incentives paid to customers from the Idaho Rider, which should have been charged to the Oregon Rider, occurred in 2011. The Company asks the Commission to reflect this adjustment in its records as necessary. *Id.* at 7.

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[1] The four tests compare a program's cost-effectiveness from different perspectives. In summary, the TRC compares program administrator and customer costs to utility resource savings, and assesses whether the total cost of energy in a utility's service territory will decrease. The UCT compares program administrator costs to supply-side resource costs, and assesses whether utility bills will increase. The PCT compares the costs and benefits of the customer installing the measure, and assesses whether program participants will benefit over the measure's life. The RIM measures the impact to customer bills or rates due to changes in utility revenues and operating costs caused by an energy efficiency program.

STAFF ANALYSIS

Staff reviewed the Company's Application and accompanying testimony and exhibits. Staff also audited the 2012 DSM expenditures. Staff's audit reviewed all DSM expenditures charged to the Rider, and the Company's internal processes of paying incentive payments to customers. Based on Staff's review, Staff generally supports the Company's DSM programs and expenditures with exceptions as discussed below. Staff recommends that the Commission find that the Company prudently incurred $46,128,307 in DSM-related expenditures. This amount consists of $25,594,191 in Rider funds, $6,019,109 in Custom Efficiency program incentive payments, and $14,479,447 of demand response program incentive payments included in base rates and the annual Power Cost Adjustment (PCA).

Staff has calculated the appropriate Rider balance as of December 31, 2012 as follows:

Company Reported 2012 Beginning Balance	$(5,321,997)
2012 Funding plus Accrued Interest	35,101,807
Total 2012 Funds	29,779,810
2012 Booked Expenses	(25,739,188)
2012 Adjustments	(227,853)
2012 Staff Recommended Ending Balance	3,812,769

Staff's ending balance of $3,812,769 is $227,853 less than the Ending Balance reported in the Company's 2012 DSM Annual Report. This difference is reflected on the 2012 Adjustments line in the table above and listed in greater detail on the table below. When the Company accrues carrying charges on the Rider balance, it should apply the carrying charge to the appropriate Commission-authorized Rider balance as of December 31st.

The Company's DSM Rider-funded expenditures charged through the Rider in 2012 are greater than the reported Booked Expenses. The Booked Expenses reflect a negative accounting entry that adjusts for a disallowance in 2011. Though the Booked Expenses help to determine the Rider account's appropriate ending balance, they do not reflect the actual amount of DSM Rider-funded expenditures for which the Company seeks a prudency determination. The following table illustrates the 2012 Rider-funded expenditures that Staff recommends the Commission deem prudently incurred:

2012 Booked Expenses	$25,739,188
2011 A/C Cool Credit Disallowance (Order No. 32667)	82,856
Energy House Call Program Accounting Correction	(17,113)
Miscellaneous Accounting Corrections	(839)
A/C Cool Credit Program Switch Installations	(32,090)
ENERGY STAR Homes Northwest Incentives	(4,000)
2012 Labor Increase Adjustment	(173,811)
Staff Recommended Prudent Expenditures	$25,594,191

Staff recommends that the Commission find that the Company prudently incurred $263,412 less in DSM Rider-funded expenditures than the Company requests. This difference consists of: (1) the $89,601 in 2011 labor increases on which the Commission deferred judgment; and (2) an additional $173,811 in labor increases from 2012. The 2012 labor increases are discussed in greater detail below. The other adjustments in the table above reflect amounts that Staff and the Company concur should be removed from the DSM Rider account. They are reflected in the Company's Application Exhibit No. 3.

In Exhibit No. 3, the Company adjusts the requested recovery amount to correct for program management or accounting mistakes. First, the Company credits the Idaho Rider with the approximately $17,000 that the Company mistakenly paid to Oregon customers as Energy House Calls incentives in 2012, and $3,500 in incentives paid out the same way in 2011. Second, the Company delays asking to recover about $32,000 spent on A/C Cool Credit switches that were inadvertently installed after the Company asked the contractor to discontinue installing them on December 14, 2012. Third, the Company does not ask to recover $4,000 in Energy Star Homes Northwest program incentives that the Company mistakenly paid to gas-heated homes. Staff acknowledges the Company for discovering and disclosing these errors.

Besides the Rider-funded expenditures, the Company requests that the Commission find that in 2012 the Company prudently incurred $6,019,109 in incentive payouts under the capitalized Custom Efficiency program, and $14,479,447 in demand response programs incentive payments that the Company currently recovers through base rates and the PCA mechanism. Staff has reviewed those expenditures and agrees that they were prudently incurred.

Rider-Funded Labor Increase

Staff recommends that the Commission deny the Company's request to recover the $263,412 in incremental Rider-funded labor expenses that the Company says it prudently incurred in 2011 and 2012. In Order No. 32667 and Reconsideration Order No. 32690, the Commission deferred its decision on whether the Company should recover $89,601 in 2011 Rider-funded labor increases because the Company did not provide sufficient evidence to support its request. Though Staff still believes the prudency of those increases should be assessed under the heightened scrutiny of a general rate case, the Commission has notified the Company that it need not wait until a rate case to provide such evidence. The Company thus requests a prudence determination for the deferred 2011 and 2012 incremental labor increases in this case.

The Company argues that the Commission should determine the prudency of incremental Rider-funded labor expenses each year when the Commission reviews the Company's annual DSM expenses (Tatum, Di pg. 8). Staff believes the Company's argument incorrectly relies on the DSM Memorandum of Understanding (MOU) between Staff and other investor-owned utilities. The DSM MOU sets guidelines for evaluating and reporting on DSM performance. Its purpose is to facilitate an objective and transparent Staff and Commission assessment of the utilities' DSM efforts.

Because cost-effective programs suggest that customers are benefitting more from a lower cost resource than they would from the next best alternative, the Company argues that a "cost-effective program should be a factor in determining the prudence of the labor component of the total program costs." Staff disagrees for several reasons. First, the Company ignores that cost-effectiveness compares a program's benefits to its costs, and that the resulting ratio informs the determination of whether the DSM *program* is economically reasonable overall. But the ratio does not indicate whether any particular expenditure charged to the program was prudently incurred. The Company's suggested approach provides no incentive for the Company to efficiently utilize rate payer funds; as long as the overall program is cost effective, the Company would be unconstrained from charging unreasonable expenses to programs. Further, if the overall program cost-effectiveness were the only measure used to determine prudency of individual program expenditures, then there would be no need to scrutinize the program's underlying expenditures.

In order for Rider-funded labor expenses to be treated like the Company's other labor expenses and included in base rates, the level of labor expenses charged to the Rider should be set through a general rate case. Salary increases in a general rate case are routinely rejected by the Commission or negotiated by Staff and Interveners during settlement negotiations. Once the level is set, that is the level the Company recovers through base rates until it files its next base rate adjustment. Meanwhile, the Company is free to increase its employees' wages, but the overall level of wage recovery remains constant. This approach encourages the Company to control its labor costs. Labor increases are partially offset through attrition, but shareholders still appropriately bear some minimal risk. Staff believes that DSM Rider-funded labor expenses should be treated like the Company's other labor expenses.

Second, the Company's evidence does not support recovery of incremental Rider-funded labor increases. The Company attempts to support its request with a 2013 DSM Total Compensation Analysis. The study performed by Towers Watson is a benchmarking analysis comparing total compensation for specific Idaho Power positions to the total compensation for similar positions at other utilities. In the study, utilities are grouped together based on their annual revenues. Idaho Power's compensation levels are higher than those of utilities with annual revenues of less than $1 billion, and slightly less than those of utilities with annual revenues between $1 billion and $3 billion. But the Company ignores that it falls between those two categories as its revenues only recently grew to slightly over $1 billion annually. The study nevertheless shows that the Company's total compensation is relatively equal to utilities with annual revenues up to $3 billion.

Idaho Power's evidence is also unpersuasive because it does not adjust for Regional Price Parities (RPP). RPPs compare the cost of living in different states and metropolitan areas by measuring the differences in the price levels of their goods and services over a year. RPPs are expressed as a percentage of the overall national price level for each year, which is equal to 100.0. The U.S. Bureau of Economic Analysis performs this analysis each year. In 2011, Idaho had 92.8 RPP, which means that Idaho's cost of living is 92.8% of the national average. Idaho has the lowest RPP of any western or mountain state. When RPPs are factored in to wage levels, Idaho Power employees enjoy a significant wage advantage over similarly positioned employees in other states.

Idaho Power's evidence also suffered because it shows that the Company decided to increase itsg labor expenditure based on a flawed understanding of other entities' wage and salary information. Specifically, Staff Production Request No. 47 requested that the Company provide all materials presented to the Compensation Committee of the Board of Directors that assisted them in determining the amount of pay increases, or general wage adjustments. The Company response included a spreadsheet illustrating the annual pay increases for several regional utilities, local businesses, and State of Idaho employees. Staff identified several errors with the spreadsheet, all of which overstated organizational salary increases. First, the spreadsheet indicated that State of Idaho employees received a 3% increase in 2013. As the Commission is aware, the Idaho Legislature did not approve any additional funding for State employees this year. Second, Staff confirmed with Avista that Idaho Power's analysis overstated the general wage adjustment for Avista non-union employees in each of the three years from 2011-2013. Third, Idaho Power's analysis included the 1.75% wage increases for PacifiCorp union employees, but did not acknowledge that non-union employees of PacifiCorp only received a 0.75% increase from 2011-2012. It should also be noted that neither Avista nor PacifiCorp received full recovery of those wage increases. Given the errors in Idaho Power's analysis, Staff does not believe the Company has justified its salary request.

In summary, based on Idaho Power's evidence and Staff's analysis, Idaho Power's incremental Rider-funded labor increases for 2011 and 2012 should not be deemed prudent and should not be passed through to rate payers. Furthermore, Staff believes that the currently approved 2010 labor amounts included in the Rider should be the cap on labor expenses included in the Rider until the Company's next general rate case, at which time that cap can be adjusted as warranted.

Demand-Side Management within Idaho Power

Staff has carefully reviewed the Company's Application and finds most of the Company's DSM programs to be well run. The program managers implementing existing programs are committed and even passionate about energy efficiency and demand reduction. In addition, the research and evaluation team has significantly improved programs by consistently delivering rigorous evaluations and ensuring that the evaluation findings are incorporated in future program implementation.

But, Staff questions the Company's commitment to comply with the Commission's directive to "pursue all cost-effective demand side management" when this year the Company has:

- filed to suspend its cost-effective demand response programs on short-notice;
- failed to analyze the cost-effectiveness impact of a 40% fall in avoided costs on its energy efficiency programs;
- announced that it will not renew its contract with the Northwest Energy Efficiency Alliance (NEEA) which delivered almost 18,000 MW of cost-effective energy savings in 2012; and
- remained silent about its decision not to pursue partnership funding of Idaho-based energy efficiency research and development.

While parts of these individual decisions may have merit, the Company has declined to provide much explanation for all but one of them. Staff recognizes that changing circumstances may necessitate action on existing programs. Unfortunately, Idaho Power has informed interested stakeholders after the fact rather than in a collaborative, proactive manner.

Demand Response

Since Idaho Power's demand response programs are currently the subject of a series of workshops that address the substantive issues of capacity surplus, pricing, program design, and cost-effectiveness, Staff will focus here on the Company's short notice to stakeholders when asking to temporarily suspend demand response.

During a December 5 and 14 webinar and conference call, Idaho Power announced to the EEAG that the Company's Integrated Resource Plan (IRP) analysis showed no capacity deficits until 2016. On December 21, 2012 - slightly more than two weeks after the first notification - Idaho Power filed to suspend its demand response programs in 2013.

Idaho Power says it had no indication that the 2013 IRP analysis would show a capacity surplus, and that it informed the EEAG almost immediately upon receiving the analysis. But Staff noticed the ever-increasing amount of demand response capacity and minimum program dispatch in 2011 and 2012. Staff's June 2012 prudency comments, which were published *six months* before the Company filed to suspend its demand response programs, observed that irrigation demand response, which was almost 80% of Idaho Power's 2011 demand response portfolio, may need to be "refined" to preserve the "program's viability."[2] Staff believes the Company should have anticipated and begun exploring program modifications and solutions to the capacity surplus with its stakeholders well before the announcement in December 2012.

The Company's $4.5 million investment to replace old paging load control switches with Advanced Metering Infrastructure (AMI) switches just months before it filed to suspend the A/C Cool Credit program highlights the problem of waiting until a document is released to apply the results of utility resource planning. The loads forecasted in the 2011 IRP never materialized and projections of a speedier economic recovery proved to be optimistic. Staff believes the Company knew this well in advance of releasing the IRP analysis in late 2012 and could have used the information to limit switch investment.

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[2] Staff Comments, IPC-E-12-15, page 12.

Also, before the Company's request to suspend demand response, its research on the A/C Cool Credit program in 2012 conclusively demonstrated how to maximize the demand reduction delivered by this program. The Company hired a third-party consultant to develop an adaptive algorithm to determine how to dispatch the program for the most effective demand reduction in a variety of temperatures. While monitoring indoor air-temperature change, thirteen events of varying duration with a range of cycling rates were dispatched in order to measure actual demand reduction per unit. If Idaho Power's demand response programs are continued in 2014 and beyond, Staff believes that knowledge gained through the A/C Cool Credit research can combine with the program's potential to be dispatched immediately without significant costs or inconvenience to participants to make A/C Cool Credit one of the Company's most valuable DSM resources.

Falling Avoided Costs

As part of the IRP analysis that informed the Company's request to suspend demand response, the Company also updated its alternate, or avoided costs. Mostly driven by falling natural gas prices, this analysis found that avoided costs for energy dropped about 40%. Since many residential energy efficiency programs, including Idaho Power's, tend to narrowly pass cost-effectiveness tests, Staff believes a dramatic decline in avoided costs could cause Idaho Power to ask to suspend or dramatically curtail some programs.

Although lower avoided costs make delivering cost-effective programs more difficult, changes to program design and delivery, new measure offerings, and shifting cost-effectiveness emphasis from the TRC test to the UCT could help preserve these resources. Staff has asked the Company to discuss how the new avoided costs may impact its current energy efficiency programs in order to identify solutions. But the Company says it cannot accurately assess those impacts until the avoided cost analysis is finalized. Staff notes however, that in late 2012 Idaho Power provided the preliminary IRP avoided cost estimates to its third-party contractor during development of the economically achievable energy savings in its Conservation Potential Assessment (CPA), which was published with the DSM Annual Report.[3] The CPA forecasted about a 25% reduction in energy efficiency potential over the next 20 years compared to the 2011 IRP.

[3] EnerNoc Utility Solutions, Idaho Power Energy Efficiency Potential Study, pages 2-23.

Staff recommends that the Commission direct Idaho Power to analyze how its new avoided cost impacts its current energy efficiency portfolio and present those results to the EEAG to begin an ongoing collaborative discussion about possible solutions if necessary.

Declining Energy Savings

Idaho Power's 2012 DSM Annual Report showed a decline of almost 11,000 MWh of energy savings from 2011 to 2012. Since 2010, the Company's energy savings have fallen by more than 11%. Through no fault of the Company, much of the decline in savings came from the residential classes as increasing efficiency standards for baseline products and market saturation reduced the savings provided by its Compact Fluorescent lighting (CFL) and home appliance programs. In addition, the impact evaluations for its two low income programs reduced the savings thought to be generated by those programs by more than 75%.

Many of Idaho Power's energy efficiency programs have remained largely unchanged since their inception. Some programs are now producing fewer saving as appliance standards toughen, building codes improve, and Energy Star appliances become more popular. But that does not mean there are no new opportunities for cost-effective energy savings. It means that utilities must adapt their portfolios to continue generating savings in changing circumstances.

While the energy savings decline has been relatively modest thus far, Staff is concerned that lower avoided costs could dramatically reduce energy savings in the next few years. Staff understands that increasing baselines and declining avoided costs complicate the task of acquiring cost-effective energy efficiency.

Staff recognizes that Idaho Power has successfully developed its existing DSM portfolio. But the Company will be challenged to adapt and innovate to maintain the performance of its current programs. Staff would like to see the Company investigate, discuss, and propose new DSM opportunities, especially for residential customers. New programs that Idaho Power could pursue include behavior-based energy efficiency programs, residential LED lighting programs, programs that target the "electric islands" of apartment complexes, and "smart" thermostats that learn the customer's comfort preferences without having to be manually programmed.

Rate design, which can be considered infinitely cost-effective energy savings, was researched in 2012. The Company conducted a Time of Use study that unfortunately targeted structural winners as participants and thus failed to identify any statistically significant energy savings. Staff understands the difficulty in recommending that customers enroll in a pilot program that could either cause their bills to increase or require consumption adjustments. But a study that omits these types of customers greatly reduces the study's value and therefore has limited use in program design.

Since its inception, the rationale for the Fixed Cost Adjustment (FCA) has been to make the Company indifferent to reduced energy sales caused by its residential and commercial DSM programs. In 2008, 43% of the reduced residential energy sales collected through the FCA was attributable to the Company's DSM programs. In 2012, that number fell to 25%. To the extent that energy savings produced by decoupled classes continue to decline, the need for the FCA is also reduced.

Northwest Energy Efficiency Alliance

In November 2012, Idaho Power informed the EEAG by phone that it would not continue to participate in NEEA after the current contract expires at the end of 2014. The Company had not previously discussed its decision with EEAG even though the full EEAG met in person less than a month earlier. The Company maintains that it was proper to inform NEEA of the decision before discussing the matter with other stakeholders. While there may be some validity in that approach, Idaho Power has not used the time since the announcement to fully justify its decision or present a plan for replacing the cost-effective savings that may no longer be provided by NEEA. Despite several requests, Idaho Power has offered very little explanation for its decision and repeatedly declined to more fully discuss this decision with either the EEAG or Staff.

In response to production requests in this case, the Company explained that its support for NEEA began as the Company was rebuilding its DSM portfolio. The Company strongly implied that NEEA is no longer necessary since the Company now has a robust suite of DSM offerings and provides for its customers what once could only be acquired through NEEA. Staff questions the Company's decision for several reasons.

First, Staff believes the upstream market-transformation leverage provided by a four-state regional body is distinguishable from the direct-customer programs run within individual utility service territories. Staff does not believe these two activities are interchangeable. Each provides benefits that the other cannot deliver.

For example, the incentives that NEEA offers retailers attracted Wal-Mart's attention. The large international retailer called NEEA to find out which television models would be incented, and based its buying decisions for retail stores in NEEA's territory on those incentives. Staff does not believe that Idaho Power, if it provided retailer incentives or incented televisions, could command the attention of Wal-Mart.

As was the case with NEEA's CFL initiative, market transformation efforts can provide the ground-breaking efforts which make direct incentives or buy-downs from the utilities possible. NEEA spent many years developing CFL technology, educating customers about CFLs, and incenting retailers to stock them. Having laid this groundwork, NEEA no longer intervenes in the CFL market. But utilities, including Idaho Power, have instituted very effective CFL buy-down programs. In 2012, Idaho Power's CFL buy-down program, Energy Efficiency Lighting, provided 71% of the Idaho Power's residential DSM energy savings. Staff doubts that this program would have achieved such scale and success without NEEA's market intervention work.

Second, Idaho Power claims its robust DSM portfolio negates the need for NEEA's market-transformation work. As described previously, Idaho Power has not analyzed its current energy efficiency programs under its new avoided costs. So neither the Company nor Staff has any basis for determining that the Company's DSM portfolio will be robust into the future. This is particularly true for the residential class, where NEEA provides over 85% of its savings.

Third, the Company outlined its request of NEEA "to allow Idaho Power to direct its funding toward those activities which it believes bring the most value to its customers. There were some aspects in this funding cycle [2009-2014] that Idaho Power supported, such as regional research especially with emerging technology, regional training, and their 'upstream' work with manufacturers." Staff points out that these three activities constitute by far the biggest portion of NEEA's activities and total budget. Further, Staff notices that Idaho Power did not specify the value it finds in NEEA's work to support federal code and standards requirements. Idaho Power does not fulfill that FCA requirement other than through its financial participation in NEEA.[4] Idaho Power has not explained how alignment on the vast majority of NEEA activities constitutes sufficient reason to not renew the contract.

Idaho Power says it still is negotiating with NEEA and hopes to work out an agreement where the financial partnership can continue in some form. But in the ten months since Idaho Power's announcement, there have been no updates on these negotiations.

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[4] Page 134 of the 2012 DSM report reads, "Idaho Power is participating in these ongoing [Idaho Building Code update] meetings and monitoring the situation to assess where support may be offered."

Staff believes NEEA has provided significant value to Idaho Power's customers and is currently cost-effective by the Company's own admission. Given that NEEA programs have been found to be cost-effective and Idaho Power DSM savings are declining, the Company should thoroughly explain why its customers are better off outside of that regional partnership. Staff recommends that the Commission direct Idaho Power to convene a collaborative discussion with the EEAG to fully discuss and explain the status of the Company's NEEA funding partnership, the justification for the decision to discontinue NEEA funding, provide updates on any ongoing negotiations, and explore alternate solutions.

CAES Energy Efficiency Research Institute (CEERI)

In the December 14, 2012 EEAG conference call that primarily addressed the demand response suspension, Idaho Power also announced that it was considering an opportunity to fund energy efficiency research and development projects in partnership with Idaho universities through CEERI and its umbrella organization, the Center for Advanced Energy Studies (CAES). The announcement was brief and vague. After the Company "emphasized that [it] wanted to keep members of the EEAG informed and asked if they had any questions," it said it "was not in a position to share what the funding would be at this time" or describe how or what types of projects would be funded.[5] Idaho Power has not provided any updates on this research and development project since that conference call.

As Staff understands it, Idaho Power has declined to fund this research effort because the Company and universities could not agree about publication rights associated with these projects. Staff points out that Avista has been able to agree with the universities on that issue, and is moving forward with their research and development funding proposal.

Idaho Power has not explained why retaining publication rights is non-negotiable when publications rights are ancillary to its core business. The Company is letting this issue prevent what could be an important DSM research and development opportunity. Idaho Power's current investment in research and development, which is needed immediately to help the Company's programs remain relevant in changing circumstances, is primarily provided through NEEA. If Idaho Power does not continue participation in NEEA, the Company will be funding almost none of the

[5] EEAG Conference Call Minutes, December 14, 2012.

research and development that Staff believes is critical to maintaining long-term, cost-effective DSM programs.

Staff recommends that the Commission direct Idaho Power to convene a collaborative discussion with the EEAG to fully discuss and explain the status of its CEERI funding partnership, justification for the Company's decision not to participate, provide updates on any ongoing negotiations, and explore alternate solutions.

Energy Efficiency Advisory Group (EEAG)

Idaho Power has made several meaningful improvements to the EEAG in the last year. In particular, letting non-members speak and ask questions freely, soliciting input on agendas, and scheduling meetings further in advance have helped create a richer dialogue between stakeholders and the Company than in past years.

However, Staff believes that the Company has failed to discuss several important DSM issues with the EEAG before taking action. These issues include demand response suspension, NEEA withdrawal, impact of lower avoided cost on DSM cost effectiveness, and CEERI participation. Staff maintains that the Company's failure to discuss these issues with the EEAG ignores the fact that the "EEAG's primary purpose is to *advise the Company* on new measure recommendations, existing measure revisions, measure prioritization, and evaluation."[6] Despite some improvements in the EEAG meetings over the past year, Staff believes the stakeholder input Idaho Power solicits and considers in the measures it funds, modifies, and suspends has declined.

Irrigation Efficiency

Idaho Power has historically relied on Regional Technical Forum (RTF) savings estimates as the basis for incenting prescriptive irrigation measures through its Irrigation Efficiency program. Staff anticipates that Idaho Power will likely continue relying on the RTF for these estimates until the Company completes its impact evaluation.

Although the RTF is widely recognized as a transparent and credible source for energy savings, even the RTF has struggled to establish reliable savings estimates for prescriptive irrigation measures. Notably, it was so difficult for the RTF to acquire sufficient data to establish energy savings that RTF's estimates were "out of compliance" with its own requirements for active measure

[6] Order No. 32667 at 17 (Italics in the original).

status for more than a year. When the new estimates were finally approved in April 2013, the RTF opted to change the categorization of prescriptive irrigation measures from "proven" to "small saver" and thereby reduce the quality standard to which the supporting data were held. [7]

Staff does not object to the RTF's methods or conclusions. While this is the appropriate method for determining regional savings, measuring the energy savings associated with a specific program through an impact evaluation may yield an alternate, but more accurate, conclusion. Rocky Mountain Power's recently complete impact evaluation of its irrigation efficiency program found that its prescriptive measures were not cost-effective. After several years of delay, Idaho Power has scheduled an impact evaluation for its irrigation efficiency program in 2013. Staff believes Idaho Power may also discover that its prescriptive irrigation measures produce significantly less energy savings than previously assumed.

Weatherization Assistance for Qualified Customers and Weatherization Solutions for Eligible Customers

The Company's two low income weatherization programs, WAQC and WSEC, were the only energy efficiency programs that did not pass the TRC and UCT in 2012. As the Commission knows, low income weatherization programs have been the focus of a lengthy and ongoing investigation. Staff is very concerned with the cost-effectiveness of these programs. But Staff is pleased with the Company's approach to addressing the problem. The Company's research and evaluation team is working with third-party consultants to correct the over-estimation of the audit tool that was used to determine each project's energy savings. This correction will help the Company manage cost-effectiveness during each project and throughout the program year by allowing the Company to selectively fund only cost-effective measures. Staff believes that the process evaluation currently in progress will help the Company work with Community Action Partnership (CAP) agencies to further refine program implementation and target utility funding for these programs around utility cost-effectiveness. Staff looks forward to receiving updates and providing feedback about the progress of this work at upcoming EEAG meetings.

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[7] See Section 2.4.4 of its "Roadmap for the Assessment of Energy Efficient Measures."

Office of Energy Resources (OER) Projects

In 2012, Idaho Power paid out almost $600,000 in incentives for OER projects installed in 2011 through the Company's Easy Upgrades program. Part of the Commission Order approving the MOU between the OER and Idaho Power specifically instructed the Company to "evaluate whether an OER-funded project qualifies for incentive payments according to each DSM program's existing rules."[8] In response to discovery, the Company confirmed that the while OER projects were being approved and installed, the Easy Upgrades programs rules prohibited Idaho Power from incenting the portion of any project that was grant or stimulus-funded. The Company also confirmed that other stimulus projects received incentive funding.

Because the program rules changed to allow incentive payments on stimulus projects in December 2011 and most OER projects received pre-approval and were installed in mid-2011, Staff concludes that Idaho Power did not conform to its existing program rules during that period. Although Idaho Power has the discretion to change its program rules at anytime, it appears that the Company failed to align the program rules with program implementation in this case.

STAFF RECOMMENDATIONS

Staff recommends that the Commission:

(1) Find that the Company prudently incurred DSM-related expenditures of $46,128,307. This amount consists of $25,594,191 in Rider funds, $6,019,109 in Custom Efficiency program incentive payments, and $14,479,447 of demand response program incentive payments included in base rates and the annual PCA;

(2) Find that the appropriate Rider balance as of December 31, 2012 is $3,812,769, and direct that the Company accrue carrying charges on this balance beginning on January 31, 2013;

(3) Direct Idaho Power to analyze how its new avoided cost impacts its energy efficiency portfolio, and present those results to the EEAG to begin an ongoing collaborative discussion about possible solutions, if necessary;

(4) Direct Idaho Power to convene a collaborative discussion with the EEAG to fully discuss and explain the status of its NEEA and CEERI funding partnerships, the justification for

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[8] *See* Order 32368, page2.

the decisions to discontinue funding and not participate, provide updates on any ongoing negotiations, and explore alternate solutions.

Respectfully submitted this 20th day of August 2013.

Karl T. Klein
Deputy Attorney General

Technical Staff: Stacey Donohue
Donn English
Nikki Karpavich

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **20TH** DAY OF AUGUST 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-13-08, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY